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## Valuation

The purpose of this abbreviated estimate of value is to determine what the fair market value of a 50% interest in PLS could be sold for to an third party in an arms length transaction.

For the purposes of this matter fair market value has been determined based on the price that would be paid between a buyer and seller with neither being under any compulsion to buy or sell and all relevant facts are known by both parties.

This report is to be used only for negotiations of buying a 50% interest in PLS and should not be used for any other purpose.

To perform our abbreviated valuation we reviewed the following:

- Entity audited financial statements for 2002 and 2003
- Internal Financial Statements 2004 and Year to date April 2005
- A limited review of company books and records
- Estimated valuation prepared by Sax Macy Fromm dated April 28, 2005
- Interview notes with Bruce Allen
- Internal projection for 2005

We have not performed an industry profile nor have we searched the marketplace for comparable sales.

**Brief Company Profile**

PLS is in the business of designing and supplying ladies sportswear using a customer's private label. The company's only significant customer is Target. The owners, Bruce Allen and Christine Dente have had a 12 year relationship with Target beginning while they worked together at a former employer. They started the company in 2001 with Target as their only customer and that dynamic of having one customer has not changed.

Basically, PLS employees purchase other designers' clothing at women's clothing shops and high end department stores and copy the designs and concepts for Target. Target will review the goods, give PLS an order and PLS fulfills the order. Target does business with PLS in two ways. Target will either order from PLS where Target takes immediate title to the goods and warehouses the product themselves (FOB) or Target will require PLS to purchase the goods directly (titled sale). When PLS incurs and titled sale they are also required to warehouse the goods until Target purchases the product for store distribution. Where Target takes possession of the goods via an FOB sale PLS is paid an 8% commission. In addition, PLS receives a rebate from the manufacturers. Where PLS takes title to the goods, they will sell the goods to Target at an agreed upon price. Historically the gross profit on PLS titled goods is between 10 and 28%. The current trend, however, is a declining profit margin.

Bruce Allen estimates that PLS supplies target with 1/3 of all of their ladies sportswear. PLS uses at least three foreign manufacturers to make their product. Until January 2005, the Company's offices were located at 470 Broom Street in Manhattan. In December 2004, PLS was bought out of their lease for $600,000 and moved to 597 Broadway in Manhattan where they have committed to a five year lease. The

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offices are used for administrative and sales functions and not for warehousing which is done at contract warehouses in a few locations around the country. The business location is in Greenwich Village which is somewhat ideal for PLS because it is very close to fine clothing shops where PLS purchases samples for their own creations.

According to Bruce Allen only he and Christine Dente are considered key to operations. No one else in the organization can be seen as irreplaceable or key. He did identify two people, George Montalbane and Newled Cochata that hold important positions, but he still emphasized that no one else was key. He also noted that the accounting controller was a weak position in the organization and will likely need to be replaced. According to Ms. Dente, she considers Newled Cochata a key person.

As to suppliers of Goods, 30%-50% is provided by Synko and approximately 40% is provided by manufacturers in Turkey and various other manufacturers make up the remainder. The company is fortunate in that is receives terms from the vendors as opposed to having to place Letters of Credit that cause additional fees. As of the end of 2004 and continuing at April 2005, the amounts due vendors has increased dramatically. This is because of a cash flow shortage due to lack of working capital and high historical partner distributions.

Competition comes from several companies. Bruce Allen and Christine Dente has identified Oxford Industries, Speed Sourcing, Target itself and a company called Trends as significant competitors. Trends said to have some legal issues currently which may open up business for the others.

**Income Statement**
The following is a summary adjusted income statement for years ended December 31, 2004 and projected for December 31, 2005.

| SUMMARY | Projected 2005 | 2004 | Actual Adjusted 2003 | 2002 |
|---|---|---|---|---|
| Sales- Titled Goods | $ 9,241,000 | $ 6,304,613 | $ 1,669,722 | $ 18,258,263 |
| Cost of Titled Goods | 8,206,000 | 5,041,464 | 1,195,938 | 16,387,549 |
| Gross Profit-Titled Goods | 1,035,000 | 1,263,149 | 473,784 | 1,870,714 |
| Commissions and Rebates | 2,945,000 | 3,915,042 | 5,655,928 | 6,866,566 |
| Gross Profit | 3,980,000 | 5,178,191 | 6,129,712 | 8,737,280 |
| | | | | |
| Owners' Compensation | 500,000 | 500,000 | 500,000 | 500,000 |
| Salaries and Benefits | 834,000 | 1,272,380 | 1,659,894 | 1,435,558 |
| Rent | 157,000 | 385,942 | 330,317 | 338,599 |
| Travel and Entertainment | 246,000 | 236,215 | 230,697 | 475,932 |
| Warehouse | 142,000 | 124,543 | 13,037 | 248,915 |
| Factor Commissions | 93,000 | 58,302 | 81,376 | 127,322 |
| Sample Development | 245,000 | 412,289 | 339,708 | 857,764 |
| Other | 990,000 | 828,005 | 736,134 | 1,095,334 |
| Total Expenses | 3,207,000 | 3,817,876 | 3,891,163 | 5,079,424 |
| Income from operations | $ 773,000 | $ 1,360,315 | $ 2,238,549 | $ 3,657,856 |
| After tax Income using 40% tax rate | $ 463,800 | $ 816,189 | $ 1,343,129 | $ 2,194,714 |

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The above statement has been adjusted for non recurring expenses, owners compensation, non operational expenses and personal expenses deducted from operations. See adjustments to income appendix to this letter report.

As mentioned earlier, the company's profits have been significantly declining mostly due to declining margins and volume in the commission category. I was advised that margins are declining due to Target using a bidding process with their suppliers and also competition from within. That may eventually prove to impact Target's clothing quality.

**Introduction to Valuation Concepts**

This appraisal was conducted in order to express an opinion as to the fair market value of a 50% interest of Private Label Sourcing LLC on a control-non marketable interest basis.

The term "Fair Market Value" was previously defined, and it can also be expressed as the amount at which ownership of the Company's assets would be justified by an investor. This definition of value contemplates continued use of the assets within the context of the business enterprise of which they are an integral part.

The opinion of value expressed herein is based upon consideration of all relevant factors including those as outlined by the Internal Revenue Service ("IRS") in Revenue Ruling 59-60, summarized as follows.

- The nature of the business and the history of the enterprise from its inception.
- The economic outlook in general and the condition and outlook of the specific industry in particular.
- The book value of the stock and the financial condition of the business.
- The earning capacity of the company.
- The dividend-paying capacity.
- Whether or not the enterprise has goodwill or other intangible value (in the hands of the owner).
- Sales of the stock and the size of the block of stock to be valued.
- The market prices of stock of corporations engaged in the same or a similar line of business having their stocks actively traded in a free and open market, either on an exchange or over-the-counter.

In addition to the aforementioned provisions, the IRS has prescribed various other factors to be considered in the valuation of business interests for federal income, gift, or estate tax purposes. These factors outlined in various Revenue Rulings, including 65-193, 68-609, 77-287, 83-120, and 93-12, have been considered in the course of the appraisal process, as deemed appropriate.

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The valuation of a business enterprise should take into consideration factors previously indicated which may individually or collectively influence the conclusion. In the final analysis, however, the opinion of value primarily depends upon the prospects for growth in the business and the magnitude of future returns.

## Approaches to Value

### Cost or Asset Approach

The *cost approach* involves consideration of the book value, adjusted book value, or the estimated liquidation value of the company subject to appraisal. These variations of the cost approach are described in the following paragraphs.

*Book value* (also referred to as *net book value*) is an accounting convention referring to the sum of a given company's assets, expressed at its historical net cost basis, less the face value of all recorded liabilities and debt. There is no theoretical underpinning, conceptual justification, empirical data, or economic reasoning to suggest that the value of a business enterprise (under any selected standard of value, such as market value) would equal a firm's historical cost-based book value. Hence, book value is not usually related to any concept of economic value, except where value is defined as a multiple of book value within the market approach.

The *adjusted book value approach*, as the name implies, utilizes the most current balance sheet to the valuation date and attempts to substitute market values for stated book values. This usually involves a detailed, itemized appraisal of all of the subject company's assets, as well as a review of all outstanding interest-bearing debt in order to determine market value adjustments to apply to historical net book values. It is noted however, that the adjusted book value methodology bears little significance to a common stock investor, since it is independent of a firm's prospective return power. In addition, it does not reflect any intangible elements of value such as goodwill or going concern, which can be of significant magnitude in profitable companies.

*Liquidation value* requires no consideration of earnings since the presumption is made that the business enterprise will no longer be ongoing. Liquidation is considered only when the underlying assets are worth more if the business is terminated and the assets are sold rather than if they were used productively to generate returns as integral components of a going concern. In this appraisal, we have made the presumption that PLS will continue as a going concern, and therefore, this cost approach technique was not employed in the determination of market value.

### Income Approach

The *income approach* is a valuation technique predicated upon the principle of anticipation. That is, the value of an investment in a business enterprise is a function of the future benefits and/or returns that will accrue to it. Under this approach, prospective benefits are converted into present value amounts at an appropriate required rate of return (or discount rate). The discount rate employed in the valuation analysis is expressed at a level commensurate with the underlying risks and uncertainties involved with the ultimate realization of the forecasted return streams.

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A prudent investor, interested in the potential return capacity of an investment, would tend to use and rely upon the income approach as a key determinant of value. In this study, the income approach was employed to indicate value, as further described in a subsequent section of this report.

There are two basic methodologies associated with values derived from earnings – capitalization of earnings and discounted future earnings. The discounted future earnings is used when the Company's near term future (3 to 5 years) income stream is going to be predictably erratic either upward or downward and then turn steady into the far future. The capitalization of earnings is used when there are neither specific anomalies nor abnormalities anticipated to affect the Company in the near term. The Company's earnings are expected to grow (or diminish) by a steady average.

In the case of PLS, we used the capitalization of earnings because it is anticipated that 2005 will be a starting point for modest steady long term growth. There is no way to predict whether the company will experience a growth event after 2005, however we have factored in the risk that Target could curtail their use of PLS in the required rate of return used in the capitalization of earnings method.

**Market Approach**

A *market comparative* approach to determine value basically involves a comparison of the financial and operating results of the subject with equivalent factors of other companies engaged in similar lines of business for which published data are available, and whose securities are traded on a stock exchange or in the over-the-counter market. Indications of value are then developed by application of certain market multiples such as price/revenue, price/earnings, price/cash flow, and price/book value of the comparative firms to the corresponding revenue, earnings, cash flow, and book value investment parameters of the subject. Since the ratios derived in the analysis are based upon publicly-traded share transactions, the values so indicated under this approach are expressed at an "as-if" freely traded interest level.

There are also private sales of business transaction databases available including Pratt's Stats, Mergerstat® Review and the Institute of Business Appraisers (IBA).

In this abbreviated letter report we have not utilized the market approach due to the fact that there is no way to know, even if there are similarly sold companies, what the customer concentration was of the sold company. For instance, if there were comparable companies that, for example, sold for 4 times pretax earnings, it would be difficult to conclude a value to PLS because there is no way to know whether these companies have a high customer concentration such as PLS. Therefore we are relying and depending on the income approach to conclude value.

**Income Approach**

As mentioned earlier, we have deemed the capitalization of earnings approach to be the most appropriate income approach method to determine valuation. It is too difficult to predict what Target will do and how much they will order from PLS in the future. A comfort level has to be established with the buyer and management that at least the 2005 sales a profit level is sustainable and will grow modestly rather that suffer the attrition that it has experienced in 2003 and 2004.

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The following is the valuation calculation using the Gordon Growth Model:

| | | | | | | |
|---|---|---|---|---|---|---|
| Formula | Next Year Projected Income / Required Rate of Return less Long Term Growth Rate | | | | = Value of Operating Assets | |
| Formula | $ 463,800 | x | 1+3% | Note 3 Divided By | | |
| | 26% | Less | 3% | | | |
| | Note 1 | | | | | |
| Formula Results | | $ 463,800 / 23% | = | $ 2,016,522 | Value of Operating Assets | |
| | Less: Working Capital Deficit | | | (500,000) | Note 2 | |
| | Less: Member Loans | | | TBD | Note 3 | |
| | Net Value of PLS | | | $ 1,517,000 | | |

*Note 1*

The Capitalization of Earnings method requires a rate of return or discount rate, which is used in the value formula. The required rate of return less a long-term growth rate equals the capitalization rate to apply to the income that represents the income going into the future.